

## Final Budget

### 1.1 Mayors

It gives me great privilege to present the 2017/18 Final Medium Term Revenue and Expenditure Framework (MTREF) budget to council for its consideration. Budgeting for 2017/18 financial year and the outer two financial years were guided by the Budget Process Plan which was adopted by Council on 27 July 2016 and subsequently tabled again in the new council in August 2016. The main objective of a municipal budget is to allocate realistically anticipated resources to the service delivery goals identified as priorities in the Integrated Development Plan. National Treasury's MFMA Circular No. 85 and 86 were used to guide the compilation of the 2017/18 MTREF budget. It is crucial to note that the Minister of Finance promulgated Government Gazette No 37577, Municipal Regulations on Standard Chart of Accounts (mSCOA), effective 01 July 2017. The objective of the regulation is to improve compliance with budget regulations and accounting standards; better inform national policy coordination and reporting; benchmarking and performance measurement and application of regulations to all municipalities.

The Minister of Finance highlighted the following during his delivery of the 2017/18 budget speech:-

- Economic growth is slow
- Unemployment is far too high
- Many businesses and families are under stress.

With all these economic challenges highlighted the community expectation remains high for increased access to basic services. The challenge is to do more with the available resources. The goal should be to enhance service delivery aimed at improving the quality of life for all people within the municipal area. Having stated this Amahlathi Municipality is faced with a challenge of underspending in the Municipal Infrastructure Grant. Better planning is required in this regard to ensure that projects are implemented as planned.

The detail of the draft annual budget is presented in the schedules attached to this report. Finally; I would like to express my sincere gratitude to the Mayoral Committee; the Municipal Manager and his Team.

### 1.2 Final Budget Related Resolutions

Below are the resolutions that must be approved by council with final adoption of the 2017/18 budget.

- a. That the final budget for 2017/2018 and the indicative 2 outer financial years 2018/2019 and 2019/2020 be approved as set out in the following tables and its supporting tables:-

- 1.1 Table A1 Budget Summary
- 1.2 Table A2 Budgeted Financial Performance by Standard Classification

- 1.3 Table A3 Budgeted Financial Performance by Vote
- 1.4 Table A4 Budgeted Financial Performance – Revenue by Source and Expenditure by type
- 1.5 Table A5 Budgeted Capital
- 1.6 Table A6 Budgeted Financial Position
- 1.7 Table A7 Budgeted Cash Flows
- 1.8 Table A8 Budgeted Backed Reserves and Accumulated Surplus Reconciliation
- 1.9 Table A9 Asset management
- 1.10 Table A10 Basic Service Delivery Measurement

- b. That the final Tariffs for Property Rates and other Service Charges be approved as attached.
- c. That the final Capital Projects be approved as attached.
- d. That the list of budget related policies be approved.
- e. That the final budget and its supporting tables be approved.

### **1.3 Budget Related Policies**

Below is the list budget related policies that were reviewed and will be approved with final budget.

- Tariff Policy
- Rates Policy
- Rates By-Law
- Credit Control and Debt Collection Policy
- Indigent Support Policy
- Cash Management and Investment Policy
- Asset Management Policy
- Budget Policy
- Virement Policy
- Supply Chain Management Policy
- Irregular Expenditure Policy & Procedure
- Fruitless & Wasteful Expenditure Policy & Procedure
- Customer Care Policy
- Housing & rental Policy
- Petty Cash Policy
- Systems Administration Policy & Procedure

### **1.4 Executive Summary**

***Section 16 and 17 of the MFMA authorises a municipality to approve an annual budget as follows:***

1. The council of the municipality must for each financial year approve an annual budget for the municipality before the start of the financial year.
2. An annual budget of the municipality must be a schedule in the prescribed format –
  - a. Setting out realistically anticipated revenue for the budget year from each revenue source.
  - b. Appropriating expenditure for the budget year under the different votes of the municipality;
  - c. May, within a prescribed framework, authorise unforeseeable and unavoidable expenditure recommended by the mayor of the municipality.
  - d. Setting out indicative revenue per revenue source and projected expenditure by vote for the two financial years following the budget year;
  - e. Setting out-
    - (i) Estimated revenue and expenditure by vote for the current year; and
    - (ii) Actual revenue and expenditure by vote for the financial year preceding the current year; and
    - (iii) A statement contained any other information required by section 215(3) of the constitution or as may be prescribed
  - f. An annual budget must generally be divided into a capital and operating budget in accordance with international best practice, as may be prescribed.

The current economic outlook will continue to pressure municipal revenue collection. It is therefore critical that the municipality reprioritise expenditure and implement strict cost containment measures. The grants from national and other spheres of government as gazetted in Dora have declined significantly due to various reasons among others being the continuous underspending of the MIG grant and demarcation. This significant decrease has affected operating expenditure which had to be in line with anticipated revenue. Measurable performance objectives and indicators are detailed in the final IDP. The main challenges that were experienced during compilation of the 2017/18 MTREF budget can be summarised as follows:-

- Ongoing challenges or economic outlook in both national and local economy
- The need to reprioritise projects and expenditure within available resources given the cash flow realities and declining cash position of the municipality
- Employee related costs that have increased drastically beyond the equitable share

In view of the aforementioned; the following is the table depicting the overview of the 2017/18 budget and MTREF.

R thousands	2016/17 Adjustment	2017/18	2018/19	2019/2020
Total Operating Revenue	279 831 139	257 765 819	261 097 858	274 915 026
Total Operating Expenditure	235 037 121	225 620 519	229 563 658	234 915 926
<b>Surplus/Deficit</b>	<b>16 154 368</b>	-	-	-
Capital Transfers	28 639 650	27 145 300	28 534 200	29 999 100

The total operating revenue has declined to R257m for the 2018 budget when compared to 2017 adjusted budget of R279m; this is due to a decline in grants and subsidies anticipated coupled with declining collection trends. The operating expenditure has declined to R225m for 2018 budget when compared to R235m due to a decline in municipal revenue. No internal projects have been budgeted for due to budget constraints. It must be noted that the municipal cash flow is under severe pressure and the municipality should put measures in place to ensure that expenditure is curbed.

### **1.5 Overview of assumptions used**

The assumptions used were guided by circular 85 and 86 issued by National Treasury for compilation of 2017/18 MTREF budget. The following assumptions were used:-

- External factors which include economic challenges that continue to put municipal revenue generation under pressure as majority of community in the municipal area is unemployed.
- Inflation outlook as indicated in the table below:-

Table 1: Macroeconomic performance and projections, 2015 - 2019 Fiscal year	2016/17	2017/18	2018/19	2019/20
Estimate	Forecast			
Consumer Price Inflation (CPI)	6.4%	6.4%	5.7%	5.6%
Real GDP growth	0.5%	1.3%	2.0%	2.2%

- Collection rate for revenue services; taking into consideration the current economic conditions.
- Bulk electricity costs have not been increased although the municipality anticipates an increase.
- Tariffs for property rates and all other service charges will increase in line with National Treasury guidelines.
- Employee related costs will be increased in line with the South African Local Government Bargaining Council resolution entered into for the period 01 July 2015 to 30 June 2018. Remuneration of councillors will increase in accordance with the Government Gazette on the Remuneration of Public Office Bearers Act.

### **1.6 Overview of budget funding**

In a circular issued by National Treasury for compilation of the 2017/18 MTREF budget they highlighted that municipalities should consider the following when compiling the 2017/18 MTREF budget:-

- Improving the effectiveness of revenue management processes and procedures.

- Paying special attention to cost containment measures by, amongst other things, controlling unnecessary spending on nice-to-have items and non-essential activities.
- The affordability of providing free basic services to all households.
- Curbing consumption of water and electricity by the indigents to ensure that they do not exceed their allocation.

The funding of the annual budget has been calculated taking into account the following:-

- Rates and Service Charges
- Interest on outstanding debtors
- Interest expected to be received from investments
- Grants as guided by the division of revenue act

## 1.7 Operating Revenue Framework

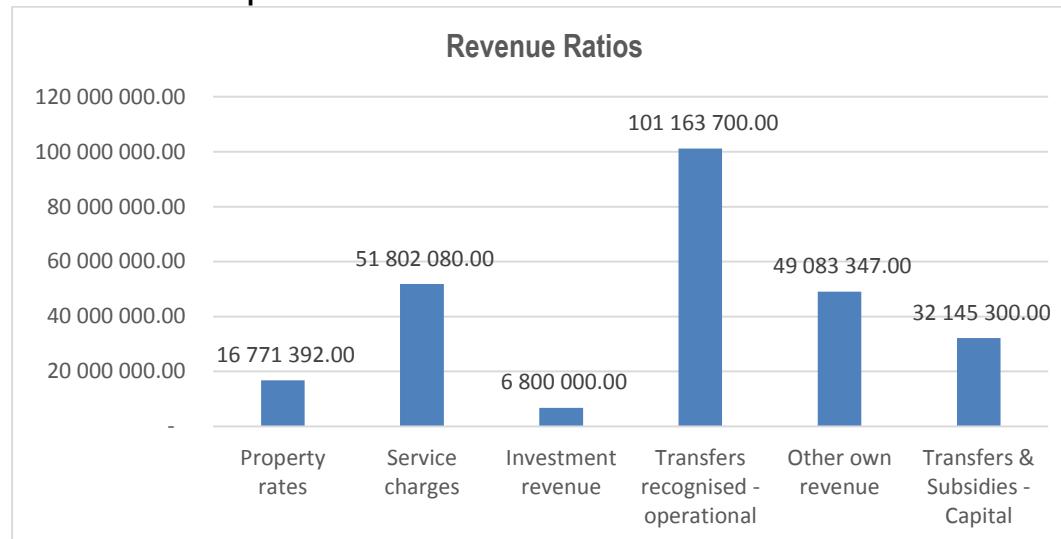
Section 18 (1) of the MFMA states that the annual budget may be funded from realistically anticipated revenues to be collected; cash-backed accumulated funds from previous years' surpluses not committed for other purposes; and borrowed funds, but only for the capital budget. Furthermore section 18 (2) states that revenue projections in the budget must be realistic, taking into account projected revenue for the current year based on collection levels to date; and actual revenue collected in previous financial years. In these tough economic times strong revenue management is fundamental to the financial sustainability of the municipality. Amahlathi Municipality has the following approved revenue policies; credit control and debt collection policy; rates policy and by-law, tariff policy; indigent policy and cash management and investment policy. Below is the table reflecting the summary of budgeted revenue by source.

**Table: 1 (Revenue by source)**

Description R thousand	Ref 1	2013/14	2014/15	2015/16	Current Year 2016/17				2017/18 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2017/18	Budget Year +1 2018/19	Budget Year +2 2019/20
<b>Revenue By Source</b>											
Property rates	2	9 294	8 795	15 841	17 600	15 882	15 882	-	16 771	17 727	18 720
Service charges - electricity revenue	2	24 822	24 140	33 683	34 407	39 435	39 435	-	41 643	44 017	46 482
Service charges - water revenue	2	-	-	-	-	-	-	-	-	-	-
Service charges - sanitation revenue	2	-	-	-	-	-	-	-	-	-	-
Service charges - refuse revenue	2	7 422	8 003	8 589	10 001	9 500	9 500	-	10 032	10 604	11 198
Service charges - other	7	-	-	-	-	120	120	-	127	134	141
Rental of facilities and equipment	981	1 004	1 002	1 159	951	951	951	-	1 004	1 061	1 121
Interest earned - external investments	8 695	9 245	9 422	8 000	8 300	8 300	8 300	-	6 800	7 188	7 590
Interest earned - outstanding debtors	2 389	2 215	2 175	2 799	2 500	2 500	2 500	-	2 640	2 790	2 947
Dividends received	-	-	-	-	-	-	-	-	-	-	-
Fines, penalties and forfeits	337	253	239	82	51	51	51	-	53	56	60
Licences and permits	-	-	-	-	-	-	-	-	-	-	-
Agency services	3 030	2 758	3 219	3 769	3 850	3 850	3 850	-	4 066	4 297	4 538
Transfers and subsidies	102 473	112 875	131 522	125 374	126 362	126 362	126 362	-	101 164	100 293	100 646
Other revenue	2	50 428	1 430	1 217	41 463	44 241	44 241	-	41 320	41 395	41 474
Gains on disposal of PPE	-	-	-	-	-	-	-	-	-	-	-
Total Revenue (excluding capital transfers and contributions)		209 877	170 716	206 907	244 654	251 191	251 191	-	225 621	229 564	234 916

Property rates and service charges have been increased in line with National Treasury guidelines. Interest on investments have decreased to R6.8m when compared to 2017 adjustment budget of R8.3m due to a drop in municipal grants and subsidies. Operational transfers and subsidies have decreased to R101m when compared to 2017 adjustment budget of R126m due to a decline in equitable share and other provincial grants.

**The table below depicts a breakdown of revenue ratios:-**



**Table: 2 (Grants and subsidies)**

Description	Ref	2013/14	2014/15	2015/16	Current Year 2016/17			2017/18 Medium Term Revenue & Expenditure Framework					
					Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2017/18	Budget Year +1 2018/19	Budget Year +2 2019/20
R thousand													
<b>RECEIPTS:</b>	1, 2												
<b>Operating Transfers and Grants</b>													
National Government:		100 153	109 180	129 236	122 974	122 974	122 974	104 964	103 293	110 646			
Local Government Equitable Share		96 720	105 384	124 034	113 780	113 780	113 780	95 446	96 836	96 852			
Finance Management		1 560	1 600	1 600	1 625	1 625	1 625	1 700	1 955	2 215			
Municipal Systems Improvement		888	936	930	-	-	-	-	-	-			
EPWP Incentive		985	1 260	1 056	1 062	1 062	1 062	1 389	-	-			
PMU 5%		-	-	1 616	1 507	1 507	1 507	1 429	1 502	1 579			
Other transfers/grants [insert description]		-	-	-	5 000	5 000	5 000	5 000	3 000	10 000			
Provincial Government:		2 320	1 950	2 286	2 400	3 388	3 388	1 200	-	-			
Sport and Recreation		1 105	1 105	1 105	1 200	1 200	1 200	1 200	-	-			
LED Promotions		-	-	-	-	-	-	-	-	-			
Waste Collection Grant		-	195	387	1 200	1 418	1 418	-	-	-			
Waste Management Grant		-	-	-	-	770	770	-	-	-			
Other transfers/grants [insert description]		1 215	649	794									
District Municipality:		-	-	-	-	-	-	-	-	-			
[insert description]													
Other grant providers:		-	-	-	-	-	-	-	-	-			
[insert description]													
Total Operating Transfers and Grants	5	102 473	111 129	131 522	125 374	126 362	126 362	106 164	103 293	110 646			
<b>Capital Transfers and Grants</b>													
National Government:		25 076	25 392	34 611	28 640	28 640	28 640	27 145	28 534	29 999			
Municipal Infrastructure Grant (MIG)		25 076	25 392	34 611	28 640	28 640	28 640	27 145	28 534	29 999			
Total Capital Transfers and Grants	5	25 076	25 392	34 611	28 640	28 640	28 640	27 145	28 534	29 999			
TOTAL RECEIPTS OF TRANSFERS & GRANTS		127 550	136 521	166 133	154 014	155 002	155 002	133 309	131 827	140 645			

## 1.8 Operating Expenditure Framework

The municipal expenditure framework for the 2017/18 MTREF budget is informed by balanced budget constraints (operating expenditure should not exceed operating revenue). The table below depicts the high level summary of 2017/18 MTREF budget classified per main type of operating expenditure.

**Table: 4 (Expenditure by Type)**

Description	Ref	2013/14	2014/15	2015/16	Current Year 2016/17				2017/18 Medium Term Revenue & Expenditure Framework		
					Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2017/18	Budget Year +1 2018/19	Budget Year +2 2019/20
<b>Expenditure By Type</b>											
Employee related costs	2	57 148	63 365	75 493	95 316	103 752	103 752	-	113 568	119 848	126 457
Remuneration of councillors		12 404	12 908	13 849	13 608	12 447	12 447		13 244	13 999	14 783
Debt impairment	3	549	5 548	11 739	5 000	5 000	5 000		5 000	5 285	5 581
Depreciation & asset impairment	2	23 914	30 237	32 720	30 000	30 000	30 000	-	26 000	27 482	29 021
Finance charges		4 256	22 597	16 370	15 000	5 000	5 000		100	106	112
Bulk purchases	2	19 632	21 588	24 313	25 000	28 000	28 000	-	28 000	29 596	31 253
Other materials	8	6 035	-	-	-	-	-		-	-	-
Contracted services		-	1 325	504	2 795	2 783	2 783	-	2 782	2 941	3 106
Transfers and subsidies		-	-	-	-	-	-	-	-	-	-
Other expenditure	4, 5	45 890	62 629	62 244	45 447	48 055	48 055	-	36 927	30 307	24 604
Loss on disposal of PPE		4 778	997	1 784	-	-	-		-	-	-
<b>Total Expenditure</b>		<b>174 606</b>	<b>221 194</b>	<b>239 017</b>	<b>232 164</b>	<b>235 037</b>	<b>235 037</b>	<b>-</b>	<b>225 621</b>	<b>229 564</b>	<b>234 916</b>

The employee related costs have increased when compared to 2017 adjusted budget of R103m to R113m in line with the South African Local Government Bargaining Council resolution entered into for the period 01 July 2015 to 30 June 2018. Remuneration of councillors have increased to R13m for 2018 budget when compared to 2017 adjusted budget of R12m; this increase is in accordance with the Government Gazette on the Remuneration of Public Office Bearers Act. Other expenditure have declined to R36m for 2018 budget due to municipal revenue that has declined drastically.

## 1.9 Capital Expenditure

The detail of capital expenditure items is attached. The following table provides a breakdown of budgeted capital expenditure by vote.

**Table: 5 (Capital Expenditure by vote)**

Vote Description	Re	2013/14	2014/15	2015/16	Current Year 2016/17				2017/18 Medium Term Revenue & Expenditure Framework		
					Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2017/18	Budget Year +1 2018/19	Budget Year +2 2019/20
<b>R thousand</b>											
Vote 1 - EXECUTIVE & COUNCIL		654	1 221	57	1 080	930	930	-	-	-	-
Vote 2 - BUDGET & REASURY OFFICE		116	618	668	440	22	22	-	-	-	-
Vote 3 - CORPORATE SERVICES		754	541	298	580	629	629	-	-	-	-
Vote 4 - PLANNING AND DEVELOPMENT		15 341	25 416	34 828	28 745	22 033	22 033	-	27 145	28 534	29 999
Vote 5 - HEALTH		-	-	-	-	-	-	-	-	-	-
Vote 6 - COMMUNITY & SOCIAL SERVICES		336	2 269	351	42	2	2	-	-	-	-
Vote 7 - HOUSING		191	466	68	210	184	184	-	-	-	-
Vote 8 - PUBLIC SAFETY		79	44	26	-	-	-	-	-	-	-
Vote 9 - SPORT & RECREATION		49	956	46	5	5	5	-	-	-	-
Vote 10 - WASTE MANAGEMENT		1 202	1 031	1	2 501	5 245	5 245	-	-	-	-
Vote 11 - ROAD TRANSPORT		110 554	143	15 176	1 020	1 731	1 731	-	-	-	-
Vote 12 - ELECTRICITY		1 224	2 886	2 299	6 506	7 011	7 011	-	5 000	3 000	10 000
Vote 13 - ENVIRONMENTAL PROTECTION		10	4	4	1	1	1	-	-	-	-
Vote 14 - [NAME OF VOTE 14]		-	-	-	-	-	-	-	-	-	-
Vote 15 - [NAME OF VOTE 15]		-	-	-	-	-	-	-	-	-	-
<b>Capital single-year expenditure sub-total</b>		<b>130 509</b>	<b>35 594</b>	<b>53 819</b>	<b>41 130</b>	<b>37 794</b>	<b>37 794</b>	<b>-</b>	<b>32 145</b>	<b>31 534</b>	<b>39 999</b>
<b>Total Capital Expenditure - Vote</b>		<b>130 509</b>	<b>35 594</b>	<b>53 819</b>	<b>41 130</b>	<b>37 794</b>	<b>37 794</b>	<b>-</b>	<b>32 145</b>	<b>31 534</b>	<b>39 999</b>

The funding for capital projects have declined from R37m to R32m due to a decline in MIG funding and budget constraints in municipal revenue.